BUSINESS RESOURCE CENTRE

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Starting a Bakery

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Manitoba
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INTRODUCTION

The Bakery Industry is of considerable importance in Manitoba. There has, however, been a decline in the number of establishments in Canada between 1983 and 1984.

In Canada 15 percent of the total number of establishments account for 80 percent of industry production, while 43 percent of the total number of establishments employ four or less people and 27 percent employ five to nine persons*.

There are over 95 retail and 20 wholesale bakeries in Winnipeg and 47 retail and 9 wholesale bakeries in Manitoba (Source: Yellow Pages - Winnipeg and Manitoba Telephone Directory).

Being a good manufacturer of bakery products is not enough to ensure the success of a bakery. Good business management skills are also required. In this handbook some of the key areas are identified where management effort must be concentrated. Any successful business requires many diverse skills such as salesmanship, accounting, purchasing, advertising and financial management. Your ability to work through and develop these areas will directly affect the future success of the operation. Should you require further assistance, the Department of Industry Trade and Tourism has a broad range of services and publications available to assist small business. This brochure should be read in conjunction with other volumes in this series, such as "Small Business Finance Plan", "Retail Business Plan", "Manufacturing Business Plan", and "Marketing".

*Source: Statistics Canada

GENERAL INFORMATION ABOUT SMALL BUSINESS

The Start

When you want to start a retail business you have three basic alternatives:

a) Buying an existing business
b) Starting a new business
c) Franchising

A) Buying an existing retail business:

Advantages:
- you can start your business right away
- you have the possibility of having an experienced staff
- an existing business has proven business history
- the financing may be easier when based on past performance

Disadvantages:
- the location is fixed
- facilities, image and business policies of existing business can be difficult to change and changes can mean additional costs
- there may be a goodwill charge

B) Starting a new retail business:

Advantages:
- freedom of choice of location
- set your own style of business
- develop at your own rate

Disadvantages:
- there will be a start-up time where cash outflows exceed cash inflows
- you have to establish your own clientele
- the risks and uncertainties are higher
- the lack of a proven past may make it harder to get financial support

C) Franchising:

Advantages: - fewer errors made in first year
- established name and image
- higher probability of success if franchisor has good track record

Disadvantages: - less freedom in many choices, including financial arrangements, suppliers, hours of operation and recipes
- less independence in determining future goals and directions

BUYING AN EXISTING STORE

There are advantages and disadvantages to buying an existing bakery. One of the biggest advantages is that you are in business right from the moment you take over. However, you are somewhat restricted by the actions of the previous owner and possibly by the location; the type of clientele and the product line will also be established. On the plus side, you will very possibly have experienced staff who are familiar with the bakery and its operation.

Buying an existing bakery includes everything from inventory to equipment; it also includes the goodwill of the previous owner. Because of these factors it is important not only to ascertain the value of everything you have directly purchased, but to learn something about the previous owner, his reputation as a businessman, his credit rating and his operating procedures.

Check the age of the equipment, but be careful -- some bakery equipment that appears to be outmoded may well be extremely sound and can provide good service for many more years with little or no maintenance. But the reverse may also be true, and much of the equipment may need to be replaced within a very short period of time. It may pay to get the opinion of an expert in the field.

If you purchase an existing store, you have three essential steps to take, all involving considerable thought and investigation:

1. Find available opportunities
2. Evaluate opportunities in detail
3. Handle the transaction properly

1. Finding available opportunities:

There are several channels for uncovering business opportunities including:

- realtors, especially those uncovering business opportunities
- newspaper ads
- trade sources (such as suppliers, distributors and manufacturers), trade publications and trade associations
- Chambers of Commerce

2. Evaluating the opportunity:

This is a crucial stage. The buyer faces the problem of determining whether the business is viable and what would be a fair price. This investigation should cover:

- Reasons for selling. The reason might be ill health or retirement but also might be declining business, changes in the character of the neighbourhood, lack of competitive strength, new competition, highway construction or rerouting, an expiring lease or franchise, or problems with creditors. The reason for selling may be something that would make it extremely difficult to make a success of the business.

- Profit, sales and expenses. The determining factor in evaluating the business is its future profit potential. To estimate the potential earning power of the business, you should find out about past profit, sales and operating ratios and, in addition, attempt to project sales and profit for the next year or two.

Analyse the owner's income from the business for each of the past three to five years. Break down the sales and operating ratios for the past three to five years and also compare them with trade averages. The record of past performance can give you this information. From the sales and operating data, you should attempt to project sales and profits - and a cash budget for at least 12 months. Our "Small Business Finance" guide can help you in setting this up.

This analysis should indicate the potential of the business. If it is not profitable, you should determine whether of not your management can improve the situation. This may be the point in the analysis to ask for advice.

- Assets and liabilities of the business. Closely investigate the assets and liabilities. A physical count of the inventory should be taken to determine a realistic price. It should also be examined for age, quality, saleability, style, and condition. Is the inventory in line with what the buyer would like to sell? Is it in character with the neighbourhood?

Determine the physical condition of the building, fixtures, and facilities.

Consider the lease. Is it transferable to you? How long does it run? What are the terms? Try to find out if the business has a good reputation and an established, satisfied clientele. Concerning trained personnel, will key employees continue to work for the firm under new management? If they are lost, how would this affect the business? Liabilities may be extensive and hidden, so the help of an accountant is usually necessary.

3. Handling the final transaction:

You should get a lawyer's help in closing the deal and conveying clear title to the business and property. Be sure that all essential points are covered.

The question of what is a fair price provides the biggest problem when a business is to change hands. The buying price is usually based on the value of tangible assets, plus an estimated value for intangibles, or "goodwill". What is the goodwill of a business? Realistically, it is the vendor's profit -- being the difference between the value of the assets and the asking price. The value of the assets is the current market worth. Should you plan to resell the business, you must be able to recover this difference. If the asking price for the business is $65,000 and the value of the assets is $35,000, the goodwill will be $30,000, being the amount to be recovered in the event of a resale. However, when calculating the return on investment it is on the total cost of the business or on $65,000.The market value of the assets is based on an estimate of the replacement value, and the price that would be realized on a forced sale. Exhibit 1 gives an example of a formula for arriving at a price for a business. Since all businesses are different, the formula cannot cover all types, but can only be a rough guideline to point out some of the key considerations.

STARTING A NEW BUSINESS

The hours required, especially when starting a bakery, are often long, the job is often arduous, the work often heavy and demanding, and going into the bakery business (as with any business) can often be a gamble.

However, there many advantages to starting your own bakery. With your own business you have complete control -- the management ability is now entirely based on your expertise. You will receive more identification as the owner of the business; on the other hand, it will take time to establish your name. Time is also required to establish a market for your products, which means that you may have to start slowly and take longer to reach your full potential. As an unknown in the business community you will possibly encounter other difficulties. For example, it may be difficult to get favorable terms with suppliers. You are in a greater risk area of making mistakes, and the longer time necessary to become established will probably mean more financing in order to ensure a good start to the business.

With any new business it is extremely difficult to estimate expenses, sales and profits, which can lead to a greater chance of failure due to underestimating your cash flow and your financing requirements. However, there are many positive advantages, as you will have no restrictions on your location, design of your unit, the selection of your equipment, and little chance of encountering another unit similar in product and design to yours.

You will have more freedom to make your own decisions regarding advertising and promotions, sales prices and suppliers; you will have total freedom to operate as you wish, to sell or close your business if and when you wish.

Starting a new business is similar to buying an existing store as far as the essential steps are concerned. Once again: 1. Find available opportunities; 2. Evaluate opportunities in detail; 3. Handle the transaction carefully; and 4. Examine inventory costs.

1. Finding available opportunties:
   Your personal objectives will dictate which opportunities to single out for evaluation. Keep in mind where you want to locate, the type of product you want to make and the clientele you would like to serve. Look to the usual channels (realtors, newspapers, Chambers of Commerce) for opportunites to buy land for building a new store, to buy land and an existing building for renovation, or to rent or lease a building.

2. Evaluating the opportunity:
   Whether you are buying, renting or leasing, take a hard look at the condition of the building. A dilapidated building may be less expensive at the outset but it may be very costly later in terms of higher heating bills, renovations, and tarnishing image in the eyes of the clientele. Consider also the location, any planned rezoning or other changes, ease of access and parking. Carefully estimate the <u>total</u> cost: initial capital outlay, renovations, monthly bills (rent or lease, heat, lights, water), insurance, new or used equipment, depreciation, etc.

3. Handling the final transaction:
   This point is the same for a new business as for an existing store - see above.

4. Inventory Costs:

Before opening, the intial inventory of both ingredients and packaging supplies will have to be covered, particularly as many suppliers will expect the new entrepreneur to pay "cash-on-delivery" until a credit record has been established.

FRANCHISING

Some bakeries are franchise operations. There are advantages and disadvantages to operating a franchise outlet as opposed to an independent outlet. Careful consideration should be given to franchise -- both as a possible method of operating and as potential competition.

Franchises offer established images and formulas, and thereby improve chances of achieving initial success. Assistance is offered in choosing a location, financing the building, training, accounting, inventory selection and general management. The franchisee is less apt to make costly errors since the franchisor's established operation formula is there to follow. While 80 percent of independent businesses fail within the first five years, less than 20 percent of franchised businesses fail during the same period.

Unfortunately, you may find the franchise agreement somewhat restricting. In the bakery industry it is normal that the type of franchise agreement is one of "Entire Business Franchising", this is where the franchisee agrees to produce and sell, within a given territory, specified goods identified with the franchisor's name and/or trademark, under a system and in a format prescribed by the franchisor. The operation of such an enterprise is restricted to the systems of the franchisor. Nevertheless, most existing franchises are successful. Franchises offer the non-experienced baker an oportunity to go into the business. But franchises are not for everyone, particularly those who thrive on independence and creativity in the work place.

The franchisee, of course, pays for the rights and advice provided. Most of the time you pay an initial amount often ranging from $30,000 - $100,000 for the franchise fee. Besides this amount, you may have to pay a percentage of your sales.

It is important to thoroughly examine the franchise agreement to identify all the costs associated with the franchise, and the benefits to be received in return for the franchise fee. Some companies, for example, specify what equipment should be purchased and from whom, which eliminates your choice and your ability to "shop around" for the best bargain.

There are many other points to consider in the agreements:

- Who decides on the location?
- Does a building have to be constructed?
- Do fixtures and supplies have to be purchased from a specific supplier?
- Is your territory protected and for how long?
- What will your payment terms be?
- What other controls exist (over advertising, hours of business, etc.)?

Review any franchise agreement with your lawyer and investigate the franchisor even more carefully than the franchisor will be investigating you. Buyer beware is the name of the game.

The fastest growing area of the bakery business today is the specialty franchised store, making everything from doughnuts to full lines of bakery products. Exhibit 2 shows the major baked-goods franchises in Canada with a breakdown of their operatins. All data was supplied by the individual companies. Where blank spaces exist, companies declined to provide information.

For your information the Business Resource Centre has developed a handbook entitled "Manitoba Franchise Guide" to assist you in coming to a decision.

LEGAL CONSIDERATIONS

In starting a bakery, thought must be given to the business structure your operation will assume. The more common alternatives include sole

*Exhibit 2

Source: Bakers Journal June 1987 Issue

proprietorship, partnership and incorporation. Each of these business structures has its own distinct advantages and disadvantages. Factors such as the ease and cost of organization, financing, management risk, limitations of liability and tax considerations will all influence your decision regarding the business structure most suited to your trade.

The act of incorporating your bakery places it into a different category. The business now becomes a separate legal entity. Under a sole ownership or partnership, the owner or each partner is liable for the debts of the business right up to the limit of his/her personal assets. However, in the case of a corporation the shareholders are not personally liable for the debts of the business. Instead, the corporation itself is liable for the debts of the business to the limit of its assets.

A further benefit to be derived from incorporation is the generally lower rate of income tax resulting from the small business deduction.

The benefits of incorporation must be related to the cost of incorporating, the more complex accounting records, financial statements and income tax returns which must be prepared and submitted annually by the corporation.

Whichever type of business organization is selected, it is important to realize that a good and complete accounting system is necessary for a successful business, and that such a system is maintained on a continued basis.

You will be required to register your business name, obtain a provincial sales tax number, an employer number and register with the Workers' Compensation Board. You must comply with all tax regulations and employer regulations as well as specific health standards as specified by provincial and city officials. The Business Resource Centre has produced a handbook "Starting a Small Business in Manitoba", which summarizes many of your responsibilities in areas such as licensing, permits, taxes, etc.
It is also essential that you determine your insurance needs prior to starting your business venture. The main types of insurance to consider are:

General Insurance - Most often this type of coverage includes insurance on the assets of the business, liability insurance on premises and vehicles, fire insurance, crime and vandalism insurance and business interruption insurance.

Life Insurance - Usually this coverage is placed on the lives of the owners (often partners will purchase life insurance on each other's life in order to insure the continued survival of the business).

Workers' Compensation - This is required by Manitoba law for reimbursing employees injured on the job for any loss of wages suffered as a result of such an injury.

Information and advice concerning these matters can be obtained by contacting your nearest Business Resource Centre.

TYPE OF BAKERIES

The Baking Industry in Canada today operates on various levels, to meet the demands of both the consumer and the competition. The result is a division of the business, this then becomes represented by several types of bakery operations:

Plant Bakeries: are large wholesale operations, usually highly mechanized.

Medium Bakeries: are often independently owned and operated, and often specialize in a particular field, selling their products through both wholesale and retail outlets.

In-Store Bakeries: are those operated by the large retail grocery chains. However, there is room in this segment of the industry for an independent operator to operate a bakery within a supermarket as a separate business.

Small Retail Bakeries: for the most part are one-store operations where products are made and sold on the premises, although in certain instances, chains of these stores have been established. In the latter case, the pattern often follows a trend towards centralization, where the baked goods may be produced in a central manufacturing establishment and sold through their other stores. These small bakeries usually specialize in fancy baked

foods and are often operated by two or three employees. They are sometimes referred to as "shop-window" bakeries, as their goods are displayed in this manner.

Hot-Bread/Bun Bakeries: have become very popular in recent years. These bakeries are often part of a franchise chain, operating along the common guidelines of the group. The success of these units depends on a large variety of freshly-baked bread and rolls being continually available throughout the opening hours of the bakery.

Muffin stores have become known for their over-sized products, often known as "mushroom-topped". Again, most of these are made from mixes, available from several of the millers and other bakery suppliers.

The varieties of muffins, like doughnuts, depend mainly on the imagination of the baker. Virtually any flavor can be introduced into the four basic mixes -- plain, bran, wholemeal, oatmeal.

Croissants can be made "on location" or purchased frozen for bake-off. These products require the same care as bread or rolls as they are also yeast-raised. However, unlike regular bread or rolls, butter or special shortenings are also worked into the dough to give the finished product a flakiness unique to croissants. The potential for a croissant/deli store is great as the croissant makes an excellent sandwich base whether the product is served hot or cold.

Cake Bakeries: can be very profitable. Everyone loves a decorated cake. However, because the retail value of such products is generally higher than any other class of baked product, extreme care has to be taken in the selection of a good location. It is of course essential that all products are of the highest quality to establish a good reputation as quickly as possible.

In recent years, some bakers have been extremely successful with Wedding Cake galleries, where the bride can spend time selecting her design and style of cake. These galleries are often linked with other businesses interested in supplying a wedding, for example a local florist, limousine service etc.

Another extremely successful cake manufacturer specializes in one type of product only, for example cheesecakes, of all types and descriptions.

Doughnut Stores: have long enjoyed a great deal success. There are numerous franchises in the doughnut field as well as many established independents.

Many doughnut stores work from basic mixes using decoration and a variety of finishes to increase the varieties available.

The many styles and shapes of doughnuts offered together with coffee and other beverages, have made doughnut shops extremely popular. Indeed, some of the twenty-four hour locations have become popular meeting places for all generations. This has resulted in increased profits for the owners of franchisees.

Other Bakeries: Those who specialize in different types of baked foods, have also grown in popularity in recent years. Some of the most successful types of units have specialized in cookies, muffins and croissants.

An important characteristic of a bakery is that manufacturing and retailing are performed by the same people. But manufacturing a product and selling that product require two altogether different skills. The first requirement for a successful baker is the necessary level of skills and experience. Product quality is very important and you have to be a good baker to reach a high quality level in your products. On the other hand, the location, store design, personnel, advertising and promotion and product assortment determine, together with the quality, the sales level your store will achieve.

TYPE OF MARKET

The market for bakery products has been stable over a long period of time with a major shift towards muffins, doughnuts and croissants as a result of higher average income levels. In general, total sales increase when income increases with an average expenditures per family (3.3 persons) for bakery

*Source: Statistics Canada, 1984 Family Expenditure Cat. #62-555

products of 4.50*. Since the break-even sales point for a small bakery, as assumed by people in the industry, is in the range of $6,000 to $8,000 per week, at least 1,400 to 1,800 families on average must be served in order to cover all the costs. However, neighbourhood characteristics as well as the situation in rural communities can have their influence on these figures.

Sales can fluctuate during the year with very busy days around holidays and other special days. Be sure to match all your activities with the sales pattern. Sales figures show that the percentage of increase of sales follows the inflation percentage.

The consumer has two buying motives for shopping at a bakery. First, the consumer preceives bakery products to be fresher than commercial products. Second, there is a person available to wait on each customer, to smile and to talk to them. This distinguishes the bakery from in-store bakeries and chain grocery owned bakeries.

The small-scale independently owned bakery competes with other small-scale bakeries, supermarkets, specialty stores (selling doughnuts or muffins for example) and franchises.

The store-in bakeries are getting more and more popular and continued growth can be expected since the consumer's buying behavior shifts in favour of the in-store bakeries due to convenience. Many in-store bakeries exist just for the service objectives and do not need to make a profit. Most importantly, they build traffic for the supermarkets.

Together with the price sensitivity of the consumer these factors make the industry highly competitive. Competition is particularly apparent in the cities. In rural areas, a bakery has to deal with much less competition and sometimes can sell to every resident of the town (which may make a bakery in a rural area more viable than one in a city). The wholesale bakery is another member of the bakery goods distribution chain. These operations bake in large volumes and deliver to independent groceries, chain stores and supermarkets. Since large volumes and scale economics are so important for them, the bakeries can easily differentiate themselves by offering specialty bakery products.

Clearly, it is very hard to start a new bakery in a city, unless it is unique and specialty-oriented, because of the existing competitive situation. However, as the number of bakery establishments in rural areas falls off, more opportunities are created for starting a successful bakery.

PRODUCT

As stated above, the quality of your bakery products is extremely important. The experienced skilled baker might be successful with starting a privately owned bakery, while someone without baking experience may not succeed.

People are not willing to spend much shopping time for convenience goods unless they are of distinctively good quality at a reasonable price. Another way to attract customers might be to offer something special. Some bakeries specialize in ethnic products, some offer a few product items indepth or specialize in, for example, wedding cakes. Introduction of a cafeteria or "tea-room" style restaurant with sit-down facilities might complement the bakery operation. It would create traffic to the store and give the business a broader base.

The product line of a bakery can be grouped into bread 45%, cakes, pies and pastries 17%; cookies 16%; rolls, buns and muffins 11%; doughnuts; crackers and others 11%.

Despite the large percentage of its contribution to total sales, small businesses only break even on bread. Selling bread is merely a service to the customer and a traffic builder. The profit has to come from specialities. Bread is a product with a high value for money. Therefore, consumption increases when average income decreases. On the other hand, cakes and pastries are luxury goods.

The number of items in a bakery shop depends on the trading area being served and its degree of specialization.

PRICE AND COSTS

Proper pricing is an integral part of planning. The prices must cover not only costs but some profit as well. In establishing a pricing policy, you should consider costs, returns, the competition and the ability of your target market to pay. Most bakery products are frequently purchased by consumers and, consequently, their prices are more closely scrutinized. Prices must be competitive.

The prices and margins of 'impulse' items can be higher, since price is not a determining factor in the purchase. The wholesale bakeries and supermarkets produce larger volumes and, therefore, have lower costs. It is the specialty and the convenience features of your store which give you a competitive edge over the supermarket. The costs of producing bread and buns are ever-increasing.

Industry Averages [1]

Cost of Sales	65 %
Wages	8-10%
Gross Profit	35%
Labour (Production)	30%
Ingredient Cost	35%

1) Set up a cost book listing the ingredients and their costs in base units and bake shop - fast food units (in pounds or ounces). Keep cost book up to date and use a pencil so that price changes can be easily made. Costs on wrapping and packaging supplies are to be kept separate.

2) Set up ingredient cost of recipes on the various items you produce as demonstrated. Add 20¢ a pound for freighted items.

3) Using Exhibit "4" Bakery Operations Report as a guide start a monthly report system.

Whoever does the purchasing of ingredients for the bakery must always strive to pay the lowest possible price for each ingredient. The largest single ingredient is flour. Of the major items included in the cost of production flour takes 55 percent, oils and fats 12 percent, sweetening agents 8

percent and all other materials 25 percent. Bakers, therefore, should be very concerned about the price they pay for flour.

While the costs increase by more than the rate of inflation and the sales volume in dollars follows inflation, profits are being squeezed and a higher turnover is needed to keep the same profit level. Cost consciousness is another important factor. One bakery, for example, went bankrupt because it wasted 1.5 percent of its ingredients completely, and therefore could not have a profitable business. Spillage of flour, spoilage and leakage should all be recognized and prevented by working efficiently.

Retailers generally establish the selling prices of their goods by "marking up" the cost of the merchandise according to some established formula.

Markup can be expressed as a percentage of the baker's costs. Thus, if the cost of a cake is $4 and you sell it for $5, the markup is $\frac{\$5-\$4}{\$4}$ = 25 percent.

The markup will depend on your own pricing policy but must be around 25 to 30 percent. This markup must cover all expenses.

ADVERTISING AND PROMOTION

Advertising is used to inform the public of your existence and to create interest in your store. There are several ways to determine how much to spend on an advertising budget. The following four methods are perhaps the best known:

(1) Percentage of sales: An amount equal to a set percentage of net sales (say 1-5%) is spent on advertising.

(2) Comparative parody: The company tries to find out how much money competitors are spending on advertising and then matches that amount.

*[1]Source: Statistic Canada Bakeries Catalogue #32-203

(3) Affordable method: The firm spends whatever can be afforded.

(4) Objective and task method: An objective (or several) is (are) set for the year's advertising. Objectives may take the form of "Increase gross sales to $300,000 in 198__", "Gain 3 percentage points in market share, to 10% of the market" or "Double current annual sales to customers in the 25-40 year age bracket". Once clear, quantifiable objectives have been set, specific tasks are outlined to fulfill the objectives within a certain period of time.

The last method - objectives and task - is often the most difficult but may also be the most economical since it results in an advertising budget that is tailored to one specific business, or even to one business activity, and money is not wasted on unnecessary or unproductive advertising.

The percentage of sales and comparative parody methods are relatively easy but later complications may arise. For example, there may exist a saturation level for the industry, and the firm that is not aware of this level may overspend on advertising.

There is also a possibility of underspending vis-a'-vis what the firm could be achieving through advertising. Further, under these methods, changes in advertising budgets tend to be reactions to current situations rather than results of analysis of the firm's markets.

The choice of methods to use in setting advertising budgets is, of course, up to the management of each firm. The most important point is not which method is used but how much thought and analysis go into the final budget.

There are several advertising media which might be used, including direct mail, newspapers, and in-store promotions. Direct mail allows the advertisers to reach a specific market area. Flyers can be mailed or delivered to homes in the area surrounding your store. It is important to stress the convenience, the personal service and the specialities.

Newspapers might also be used for advertising. The cost of advertising in widely distributed newspapers may be prohibitive. Also, the message would reach many people who are not potential customers for your store. You might be better advised to advertise in smaller, less widely circulated community newspapers.

Just as the cost of advertising in daily newspaper may be beyond your means, so too will the cost of advertising on radio or television. Those media are also quite inefficient for your purposes, as the message reaches many who are not a part of your target market. You should perhaps avoid radio and television, unless your store is located in a small town which has its own radio station.

A more effective means of bringing attention to the bakery and its services is sales promotion. Sales promotion would include window displays, signs, banners and in-store displays. Recent articles state that shelf signs are amoung the best ways to sell bread. It is extremely important for the store to be well-marked, with signs where passersby and customers will see them. Inside the stores, displays can be used to increase impulse buying. A low sales volume problem might be caused by too much manufacturing and too little selling effort.

Next to high quality, a professional sales approach is necessary. You don't have to be a merchandising expert but you must be aware of the importance of promotion and you must plan your activities ahead.

LOCATION

One of the most important decisions you must make is where to locate your store. The location can be a critical factor in determining the ultimate success or failure of the operation. In assessing any location, carefully study the surrounding area, including prospective competitors.

Many of your customers will come from within a one-mile radius of the store. Industry standards suggest that between 1,400 and 1,800 families must live in your trading area in order to sustain operations.

You should also consider future development plans for the area. Most local governments can provide information on projected growth rates for different areas as well as proposed and existing zoning by-laws.

The density of traffic passing a proposed site, both pedestrian and vehicular, is another factor in determining the potential sales for the location.

Free-standing stores can be successful, but other traffic generators within the immediate area can increase the probability of success. Traffic generators, besides other businesses, include schools, parks and sporting facilities. Bakeries are often located near other stores like barber shops, beauty salons, restaurants, drug stores and banks. A cluster of stores act as a "traffic pull", to the mutual benefit of all.

As stated before, it will be extremely hard for newcomers in a neighbourhood business to be successful, because the market is already divided amoung the existing bakeries and the demand is stable. The best opportunity to go into the bakery business may be to buy an existing bakery. In the rural areas, particularly, bakeries are often found for sale. There is less competition and the market already exists, giving a location some promise.

STORE DESIGN AND LAYOUT

Despite high interest rates, it has been demonstrated through studies that the investment into newly designed or new stores has, in most cases, been amortized over a few years. It is essential to plan the design carefully, be it for the building of a new store, a branch or the renovation of an existing store.

Special emphasis should be placed on the competitive situation in the area. How far away are the locations of competitors, and how high is the quality of their products? Their sales volume can be estimated by the number of employees in their bake shop or store. Example:

Assumption: - one manager and two part-timers
- salary and wages $50,000

- wages are 30% of total costs
- gross profit is 30%

Therefore the necessary sales volume is $238,095, i.e.,

$50,000 x $\frac{100}{30}$ (i.e. wages of $50,000 represent 30% of costs) x $\frac{100}{70}$

(i.e., total costs represent 70% of the value of gross sales).

Another important consideration in store design is the type of furnishings used to display the goods. Even a perfect assortment in the right location can fail if the furnishings do not lend the kind of framework that would display these goods properly, emphasizing their quality.

Every interior design should have its own unique look. The personal character of a store is created through careful planning and detailed organization.

The advantages of a large display area cannot be overestimated. It is essential to present the entire assortment to the customer, as the appearance of fresh baked goods can also increase impulse purchases.

Within the store, display becomes the sales maker through effective visual presentation of merchandise. Remember further that the counter is the heart of the shop. An integral, and often overlooked, part of the store is proper lighting. People gravitate toward well-lit areas, so maximum lighting should surround the areas where baked goods are displayed.

Planning the layout of a retail area at the preliminary stages is not difficult. By preplanning, many problems will be eliminated before they arise. It is important that you preplan how to profitably operate your bakery from the beginning stages to the time the doors open.

Many equipment manufacturers can provide guidelines on equipment and recommmend the most efficient use of space in your production and retail areas.

Exhibit 3 gives an example of how to lay out your production and retail area.

FINANCIAL PLANNING

According to Dun and Bradstreet, the number of small business bankruptcies is increasing, largely because of poor financial planning. The following discussion should help you systematically plan your short and long-term future capital needs. It should enable you to realize the need for any additional financing before a crisis arises.

A detailed outline of financial planning is contained in companion volumes in this series - "Small Business Finance Plan", "Service Business Plan", and the "Retail Business Plan". The purpose of this section is to underscore the importance of sound financial planning by summarizing the basics of the process.

The steps of financial planning include:

1) determining the cost of the premises, equipment and fixtures
2) estimating all operating expenses
3) estimating working capital or cash flow requirments, and the sales volume needed to meet these requirements
4) preparing projected statements: cash flow, profit and loss, and balance sheet
5) considering return on investment and comparing with an alternate business investment program
6) considering the net personal income and balancing this against your personal income needs.

FINANCIAL RECORDS

Decisions made are only as good as the information upon which they are based.

Carefully kept records can provide sound information for use in management and financial decision-making. It is not difficult to maintain a record keeping system sufficient for the needs of most small businesses. The exact

requirements vary, depending on the volume of business, the number of suppliers, credit policies, and so on. Some of the records might include:

- A checkbook - You should have a bank account used exclusively for business purposes.

- A cash receipts journal - Used to record all payments made to the business and any other cash receipts.

- A cash disbursement journal - Used to record all disbursements made by the business. The payment may be for merchandise, wages, rent, utilities, or other such expenses. Payments should be made by cheque , if possible, in order to more effectively control cash.

- An accounts receivable ledger - Contains a record of all amounts owed by customers. You may operate strictly on a cash basis, but may also have clients buying on credit. It is advisable to keep track of the credit per client.

- A purchases journal - Used to record all purchases made on account.

- An accounts payable ledger - Contains a record of all amounts owed to suppliers.

- A payroll journal - To record pertinent data about employees and all wages paid to them.

The record system that you use has to provide information relevant to decision- making and act as a tool for controlling operations.

It might be advisable to distinguish several categories in your product assortment (e.g. bread, cookies, crackers, pastries, cakes, doughnuts, and muffins) and to keep track of their sales and costs separately. In this way you can identify the contribution of each category to your sales and profits. Since most of the transactions are for ready money, cash control

is extremely important. Recording the daily cash receipts every evening is recommended. You are required to maintain records for taxation purposes but a more important purpose of keeping financial records is to enable you to monitor the progress of your business.

CONTROL SYSTEMS

It is impossible for any businessman to carry the entire business in his head. Much of the detail must be written down. The items committed to paper should be those that require daily attention, or have a bearing on the finances of the business. It is here that control systems are invaluable.

In order for any system to be reasonably effective, it must be fairly simple, and easy to follow. The examples of forms presented here could provide the basis for a bakery control system; however, it should be noted that each form can be adapted to suit the individual business.

Purchasing/Purchase Orders

These forms provide a record of goods ordered, the date of order and the amount. The purchase order also provides a check-list when the deliveries are received.

Purchase order forms are easily obtained from any office supply house, often in book form. They are generally numbered to provide a reference point.

Receiving Record

This form will show what goods have been received and when they arrived. It is useful to note that the remarks column is available for explanations of goods returned (for such things as damaged packaging), for short-shipment, etc.

HERE ARE SOME POINTS TO REMEMBER

1. Make up inventory forms and take inventory every four weeks.

An explanation of Inventory adjustment on Exhibit "4" (Bakery Operations Report) is as follows: lets assume you take Inventory on May 30th, and your total ingredients on hand are $5,000.00 (that is opening inventory) - when you take stock on June 30th, and your Inventory is $4,500.00 (that is closing inventory) you add $500.00 to the total of your purchases - on the other hand if your clsoing inventory was $5,500.00 you would subtract $500.00 from the total of your purchases.

2. Record your shrinkage and and spoilage to get a figure on the loss percentage.

3. A carefully prepared monthly report is one of the most useful tools available to a business manager - the analysis can provide a number of benefits:
   (a) it will highlight areas of opportunities or concern before they are missed or become urgent;
   (b) it gives you the opportunity to learn more about your business;
   (c) it will draw your attention to expenses which should be watched more closely;
   (d) it will enhance your chances of obtaining financing if needed for an expansion project - increase in working capital - refinancing or other reasons.

4. Work out your gross profit. Get to know your basic operating percentages - business decisions are made by knowing them. Another method of setting selling prices in the bakery and fast food industry is to take the ingredient cost and multiply by 3. An example of that would be if the ingredient cost is .40¢ the selling would be .40¢ x 3 = $1.20 or 66 2/3%. If the items is produced for the wholesale trade multiply by 3 1/2 or a selling of $1.40 less your 20% discount leaving 1.12 for you - just under 65% gross.

5. Once you have established your expected gross profit check any future deviation from that figure.
   (a) The operating report and the forecast are separate and distinct financial documents. They are however combined in exhibit "4" as the preparation and use of one is closely related to the other. The

two go hand in hand to provide a much more meaningful analysis of your business operation - so the preparation of both is recommended - start with the operating report first for the year 1987 - then - with the figures available to you and information readily available, your forecast for 1988 will be as accurate as possible.

6. Calculate what your packaging costs are.

7. Make sure that you train your staff not to waste packaging. Use the right size package every time. Never open more than one unit of each type of package.

8. Know how much each prepackage unit you sell costs to package.

9. Have a separate cash drawer for each cashier.

10. Have a constant cash float for each cashier.

11. Count the cash at the end of each shift.

12 Have a friend unknown to your staff do a test order once every month as an accurancy test.

13. Know your traffic flow. Count how many customers you have each hour of business. Schedule your staff so that you don't waste labor.

14. Know what finished products should weigh, and know how much money you should charge for each 25 grams. Any amount more than the specified weight is money out of your pocket.

15. Permit the staff to taste product as a training aid but do not allow constant nibbling on the job.

16. If you do not have a clock, make the staff aware that you do notice that they are on time. You might be paying for labor that you are not receiving.

17. Ask staff to help in conserving product and packaging materials. Ask for their involvement and reward them accordingly, and you will both be winners.

PERSONNEL

It may be difficult to operate the store without hiring additional personnel. Since personalized service is so important, a knowledgeable and personable sales staff is the key in the selling process. Personalized service is the most commonly cited reason for continued patronage.

Since the personnel involved can determine the success or failure of your store, it is important to carefully screen prospective employees. When an applicant is hired, be sure to familiarize him/her with all duties and other aspects of the work. Before they are left on their own to mind the store, they must be well acquainted with all aspects of its operation.

OTHER ASPECTS

Security: Although the average value of the product is not very high you still have to handle security. Controlling employee dishonesty begins with the hiring process by thoroughly investigating work histories and checking references.

Also check the use of supplies and ingredients. Since the markup in dollars is not very high, any waste or loss decreases the profit margin even more.

Product freshness: Make sure that none of your products stays in the store after the expiry date. Since freshness is so important, carefully monitor your stock rotation.

SUMMARY

As pointed out, all aspects of the business should be analyzed before starting a bakery.

Decisions concerning whether to buy an existing store or to start a new one, where to locate it, whether to be independent or a franchisee and how to finance the operation all have to be made well before business starts. The opportunities for a profitable bakery are currently much better in rural areas than in the city, where competition is tougher and the market is divided among established bakeries, according to people involved in the industry.

When in business, you have to monitor your results, keep an eye on your competitors and keep your records up-to-date. Financial plans have to be made, evaluated and adapted. You have to train, supervise and motivate your personnel. Advertising and other promotional efforts have to be planned and carried out.
Pay special attention to your market because changes in the neighbourhood can influence your business, i.e., the assortment, price setting and promotion.

To operate a bakery successfully, you should be an experienced and skilled baker; of equal importance is the retailing of your bakery products with its inherent challenges.

EXHIBITS

A Formula to Arrive At A Price For A Business

Major Baked - Goods Franchises In Canada

Store Layout For The Production Area (A) and The Retailing Area (B)

Control Systems (A) and Bakery Operations Report (B)

Forecasting the Profitability (A) and Key Business Ratios (B)

Analysis of Sales Per Selling Area by Kind of Business and Region

Trade Journals

Exhibit One

A FORMULA TO ARRIVE AT A PRICE FOR A BUSINESS

			Business A	business B
Step 1 Determine the adjusted tangible net worth of the business. (The total value of all current and long-term assets less liabilities).	1.	Adjusted value of tangible net worth (Assets less liabilities).	$75,000	$75,000
Step 2 Estimate how much the buyer could earn annually with an amount equal to the value of the tangible net worth invested elsewhere. (This is just an arbitrary figure, used for illustration. A reasonable figure depends on stability and relative risks of the business and the investment picture generally. The rate should be similar to that which could be earned elsewhere with the same approximate risk).	2.	Earning power - at 10% - of an amount equal to the adjusted tangible net worth if invested in a comparable risk business, security, etc.	7,500	7,500
	3.	Reasonable salary for owner/operator in the business.	18,000	18,000
	4.	Net earnings of the business over recent years- this means net profit before subtracting owner's salary.	30,000	22,750
Step 3 Add to this a salary normal for an owner/operator of the business. This combined figure provides a reasonable estimate of the income the buyer can earn elsewhere with the investment and effort involved in working in the business.	5.	Extra earning power of the business (line 4 minus lines 2 and 3).	4,500	- 2,250
Step 4 Determine the average annual net earnings of the business (net profit before subtracting owner's salary) over the past few years. This is before income taxes, to make it comparable with earnings from other sources or by individuals in different tax brackets. (The tax implications of alternate investments should be carefully considered).	6.	Value of intangibles - usings three-year profit figure for moderately well-established firm (3 times line 5).	13,500	-
	7.	Final Price — (lines 1 and 6).	88,500	75,000 (or less)

In example A, the seller gets a substantial value for intangibles (goodwill) because the business is moderately well-established and earning more than the buyer could earn elsewhere with similar risks and effort. Within three years the buyer should have recovered the amount paid for goodwill in this example.

Step 5 Subtract the total of earning (2) power and reasonable salary (3) from this average net earnings figure (4). This gives the extra earning power of the business.

Step 6 Use this extra, or excess, earning figure to estimate the value of the intangibles. This is done by multiplying the extra earnings by what is termed the "years of profit" figure.

This "years of profit" multiplier pivots on these points. How unique are the tangibles offered by the firm? How long would it take to set up a similar business and bring it to this stage of development? What expenses and risks would be involved? What is the price of goodwill in similar firms? Will the seller be signing a noncompetitive agreement?

If the business is well-established, a factor of five or more might be used, especially if the firm has a valuable name, patent or location. A multiplier of three might be resonable for a moderately seasoned firm. A younger, but profitable, firm might merely have a one-year profit figure.

Step 7 Final price = Adjusted Tangible Net Worth + Value of Intangibles. (Extra earnings x "years of profit").

In example B, the seller gets no value for goodwill because the business, even though it may have existed for a considerable time, is not earning as much as the buyer could through outside investment and effort. In fact, the buyer may feel that even an investment of $75,000 -- the current appraised value of net assets -- is too much because it cannot earn sufficient return.

Source: Small Business Reporter

Exhibit Two

Major Baked-goods Franchises in Canada

BAKERS JOURNAL EXCLUSIVE:

1987 BAKERY FRANCHISE CHART

Company	Address	Contact	Product	Year Est. Franch.
SPECIALTY				
Bel Gaufre	2035 Blvd. Charest O., Quebec City	A. Debroux	Waffles	1979
Carole's Cheesecake Co. Ltd	525 Eglinton Ave. W., Toronto	M. Ogus	75 Flavors Cheesecake	1979
Cindy's Cinnamon Rolls	1007 S. Mission Rd., Fallbrook, Calif	T. Harris	Cinnamon Rolls	
Croissant Plus	6810 Jarry St. E., St. Leonard, Que	G. Boulanger	Croissants, muffins, pies	
Croissant Show	6611-1805 Baseline Rd., Ottawa	G. Corcoran	European-style croissants	1982
Dairy Festival	21 Ingram Dr., Toronto	J. LeClerc	Full line bake-off	1975
Heavenly Muffins*	350-1497 Marine Dr. W., Vancouver	A. Kestler	Cinnamon buns, crepes, sandwiches	1985
Michel's Baguette	1 Dundas St. W., Toronto	J. Hart	Bread, rolls, croissants	1980
Mmmuffins	1 Dundas St. W., Toronto	J. Hart	Muffins, cookies, croissants	1979
Old Country Bread	215 Holiday Inn Dr., Cambridge, Ont.	A. Sproll	European breads	1978
Saint Cinnamon Bakery	145 King St. W., Toronto	A. Winter	Cinnamon rolls	1986
Sweet Rose's Cookies	2 Wellesley St. W., Toronto	R. Gumienish	Cookies, muffins, croissants	1978
T.J. Cinnamons Bakery	800 W. 47th St., Kansas City, Mo	A. Murray	Cinnamon rolls	1986
Tea Masters	789 Don Mills Rd., Toronto	A. Manousos	Muffins, croissants, Danish	1979
Treats Inc.	121 Bloor St. E., Toronto	R. Kerr	Muffins, cookies, cinnamon buns	1977
BREAD & BUNS				
Bread King Bakeries	P.O. Box 2775, Stn. F., Toronto	A. Rahim	Bread, buns, etc.	1981
Bun King Bakeries*	1173 N. Service Rd. E., Oakville, Ont.	A. Rizzuti	Bread, buns, etc.	1979
Buns Master Bakery Systems	751 Main St. E., Milton, Ont.	J. Mattinick	Bread, buns, etc.	1970
MISCELLANEOUS				
Original Panzerotto & Pizza	234 Parliament St., Toronto	J. Schiavone	Panzerotto, pizza	1976

Franchises Available	Franchise Fee	Royalties	Financing Available	Bank Thru Franchisor	'86 Stores Corp.	'86 Stores Franchised	Current Stores Corp.	Current Stores Franchised	Year-end '88 Stores Corp.	Year-end '88 Stores Franchised
	$15,000	5%	No	Some			3	8	3	8
Canada, U.S.	$25,000 to $30,000	0%	No	Yes	4	11	4	11	4	11
Can., U.S., Alaska	$35,000	5%	No	No						5
Mont., Ottawa	$25,000	4.5%	Yes	No	10	22	10	22	10	32
Canada	Turnkey	5%	No	Yes			1	3	1	5-8
Canada	$20,000	5%		Yes			2	2	2	
		5%					0	10		
Canada	$40,000	5%	No	No	12	7	6	6	6	6
Canada, some U.S.	$35,000	6%	No	No	4	74	6	78	6	88
S.W. Ont.	$25,000	3%	No	Yes			2	0	2	2
Canada	$13,000	5%	Yes	Yes	1	1	1	6	1	7
Ont., Can. cities	$25,000	5%	Yes	Yes			5	5	10	10
Canada	$15,000 (U.S.)	5%	No	No	7	3	7	3	8	8
Ontario	$30,000	5%	Yes	Yes			3	8		10
Canada, U.S.	$55,000	5%	No	Yes	8	73	8	85	8	80-90
Ontario	$15,000	5%	No	Yes	0	2	0	2	0	5
Canada	$14,000	5%	No	Yes	0	60	0	70		
Can., N.W. U.S.	$30,000	4%	No	No	0	110	1	125	1	135
Ontario	$25,000	5%	Yes	Yes	4	14	4	16	4	20

* — Listing based on previously-published information

Franchisors' Comments

"Substantial and significant growth for the company" — Carole's Cheesecake Co.

"Increase of sales volumes by 20 per cent, coming mostly from product concept recognition within the environment and product additions. Opening 10 units in 1987" — Croissant Plus

"New beverage line of gourmet coffees" — Mmmuffins

"We're getting bigger. The cinnamon trend is multiplying" — Saint Cinnamon Bakery

"Slow but steady growth" — Treats

"More impulse purchase items. Larger variety of fast food" — Cantor Bakery

"Slow but good growth" — Buskett Bakery

"More in-store bake-off and frozen raw products to bake from. Higher quality and more natural products. Specializing in ethnic products" — Van Horne Bakery

"More franchise concepts will be developed. Franchising will keep becoming increasingly popular and it will be safer to invest in" — Original Panzerotto and Pizza

"Terrific expansion and awareness of Baker's Dozen Donuts" — Baker's Dozen

"Forecasting 10 new stores for the next year" — The Coffee V'ay

"Only the strongest quality-minded stores will survive in this densely populated market" — Donut Delite Cafe

Franchisor's Comments

"Further moves toward more diversified product lines" — Holey Donut

"Increased market awareness as to what products doughnut shops are carrying" — Mister C's Donuts and More

"Opening more stores with drive thru's. Having tremendous success in the Maritimes. Also, implementing complete deli concept with home-made bread made in stores" — Mister Donut

Footnote to Chart

The chart on these pages shows major baked-goods franchises in Canada. All data was supplied by the individual companies. Where blank spaces exist, companies declined to provide information. Bakers Journal accepts no responsibility for the accuracy of the figures supplied.

Exhibit Two

BAKERS JOURNAL EXCLUSIVE:

1987 BAKERY FRANCHISE CHART

Name	Address	Contact	Product	Year Est. Began	Franchises Available	Franchise Fee	Royalties	Financing Available	Start-Up Capital Required	'86 Stores Corp.	'86 Stores Franchised	Current Stores Corp.	Current Stores Franchised	Year-end Stores Corp.	Year-end Stores Franchised
DOUGHNUTS															
Baker's Dozen	1324 Dundas St E., Mississauga, Ont.	M. Kotsiopoulos	Doughnuts, muffins, croissants, etc.	1977	1983	Canada	$15,000	4%	No	Yes	2	28	2	34	2	60
The Coffee Way	1910 Kipling Ave., Toronto	R. Garneau	Doughnuts, muffins, croissants, etc.	1982	1986	S. Ontario	$150,000 (Turnkey)	4%	No	Yes	1	3	2	4	2	8
Country Style Donuts	8370 Woodbine Ave. Markham, Ont.	D. Patchett	Coffee, doughnuts, muffins, etc.	1982	1982	Que. to Alta.	5,000	4.5%	No	Yes	8	86	2	103	2	110
Donut Café	100 Wellington Rd S., London, Ont.	J. Goodish	Doughnuts, etc.		1985	Ont., Que., U.S.		3%	Yes	Yes		12	13	14	15	20
Donut Delite Café	45 Pacific Crt., London, Ont.	J. Garagozzo	Doughnuts, muffins, croissants, etc.	1984	1984	Ontario	$20,000	5%	No	Yes			1	11	2	19
Donuts and Things Int'l	51 Toro Rd., Toronto	S. Vyner	Doughnuts, muffins, croissants, etc.	1986	1986	Ontario	$25,000	5%	Yes	Yes	0	5	0	7	0	12
Donuts Plus	14 Metker Dr., Toronto	S. Breitner	Doughnuts, muffins, croissants, etc.	1986		Toronto	$15,000	4.5%	Yes	Yes				3		9
Dunkin Donuts	10,000-620 Cote de Liesse, Lachine, Que.	P. Caron	Doughnuts, muffins, croissants, etc.	1963	1963	Que., Ottawa	40,000	4.5%	No	No			0	82	0	91
Dutch Master Donuts	747 Don Mills Rd., Toronto	H. Flores	Doughnuts, muffins, cookies	1980	1979	Ontario	None	5%	Yes	Yes	2	5	2	4	2	6
Fine Donuts	481, Blvd. Tache, Hull, Que.	M. Bhinder	Doughnuts, muffins, croissants	1985	1987	Que., Ont.	$25,000	5%	Yes	Yes			1	3	1	10
Haley Donuts	255 Gerrard St. E., Toronto	D. Platt	Doughnuts, muffins, croissants, etc.	1985	1986	Ont., Que., U.S.	$15,000	5%	No	Yes	0	5	0	11		22
Hot'n One Donut Co. B.C. Ltd.	6360 Bensford St., Burnaby, B.C.	L. Seller	Doughnuts, muffins, croissants, etc.	1984	1984	B.C., Alta.	None	5%	No	Yes	4	5	4	6		
King Donuts	278 Bunting Rd., St. Catharines, Ont.	C. Manfil	Doughnuts, coffee	1979	1978		$60,000	4%	No	Yes	2	4	2	6		
L'il Orbit Donuts	21 Ingram Dr., Toronto	J. LeClerc	Doughnuts, coffee	1972	1986	Canada	$14,500	4%	Yes	Yes			0	15	0	25
Mister C's Donuts	157 King St. E., Kitchener, Ont.	M. Cohen	Doughnuts, muffins, croissants, etc.	1986	1986	Ontario	$140,000 (Turnkey)	4%	Yes	Yes	1	3	2	6	3	16
Mister Donut of Canada	1111 Finch Ave. W., Toronto	R. Ansett	Doughnuts, muffins, complete deli	1955	1985	Ont., Que., Maritimes	$25,000	4.5%	Yes	Yes	0	76	0	80	0	80
Nutty's Donuts	11720 Voyager Way, Richmond, B.C.	A. Lung	Doughnuts, soup, sandwiches	1978	1988	Van., Edmonton	$160,000 (Turnkey)	5%	No	Yes	3	5	6	6	7	9
O'Donuts Coffee Shops	2373 Bloor St. W., Toronto	C. Kiriakopoulos	Doughnuts, muffins, soup, sandwiches	1979	1980	Ontario	$35,000	0.5%	Yes	Yes	1	12	1	12	1	20
Robin's Donuts	908 E. Victoria Ave., Thunder Bay	W. Rankin	Doughnuts, muffins, biscuits	1975	1977	Canada	$35,000	4%	No	Yes		82		88		102
Tim Donut Ltd.	874 Sinclair Rd., Oakville, Ont.	B. Stern	Doughnuts, muffins, croissants, etc.	1980	1985	Canada, U.S.	$15,000	3%	No	Yes			6	310	6	350
FULL LINE																
Bushell Bakery	3089 Dundas St. W., Toronto	F. Sherri	Full Line	1980	1982	Toronto	$10,000	3%	No	Yes	1	4	1	4	1	6-8
Cantor Bakery	8575 8th Ave., Montreal	G. Cantor	Full Line	1956	1980	Mont., Ottawa	0	3%	No	Yes	4	80	4	83	4	85
Grandma Lee's Int'l	12A-1200 Aerowood, Mississauga, Ont.	N. McKay	Full Line	1971	1976	Canada, U.S.	$10,000-$30,000	0-10%	No	Yes	0	80	0	88	0	100
Hunt's Bakeries*	224 Canarctic Dr., Toronto	S. Scott	Full Line	1904	1979		$15,000	5%	No	Yes	0	20	0	24		
Open Window Bakery	1125 Finch Ave W., Toronto	M. Feig	Full Line	1956	1978	Montreal	$35,000	5%	No		1	14	1	13	1	16
Van Horne Bakery	8915 Querbes Ave., Montreal	M. Sanders	Full Line	1951	1979	Toronto	Variable	1%		Yes			8	22		

* Listing based on previously available

BAKERS JOURNAL — June 1987

Exhibit Three

(a) Production Area

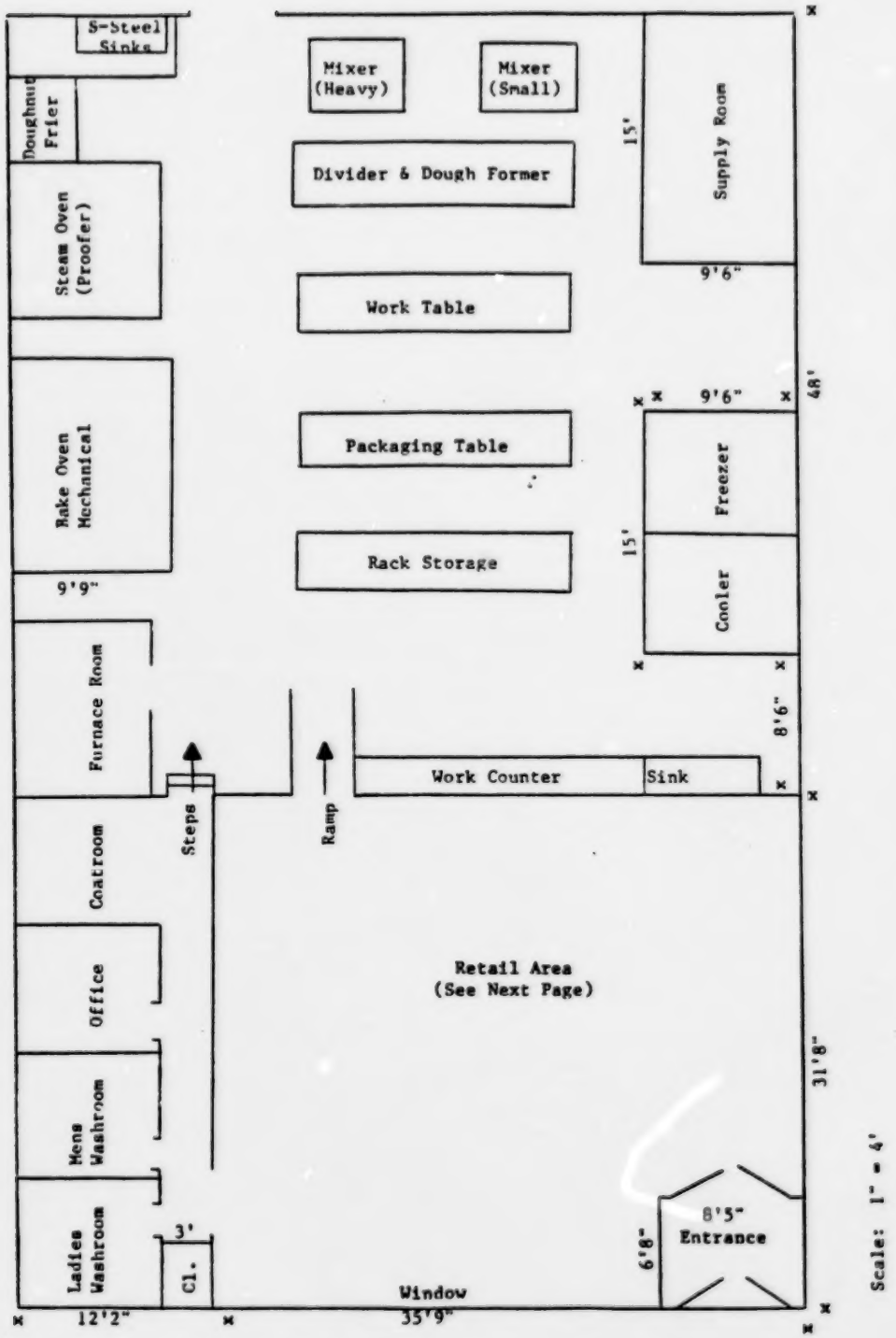

Exhibit Three

(b) Retailing Area

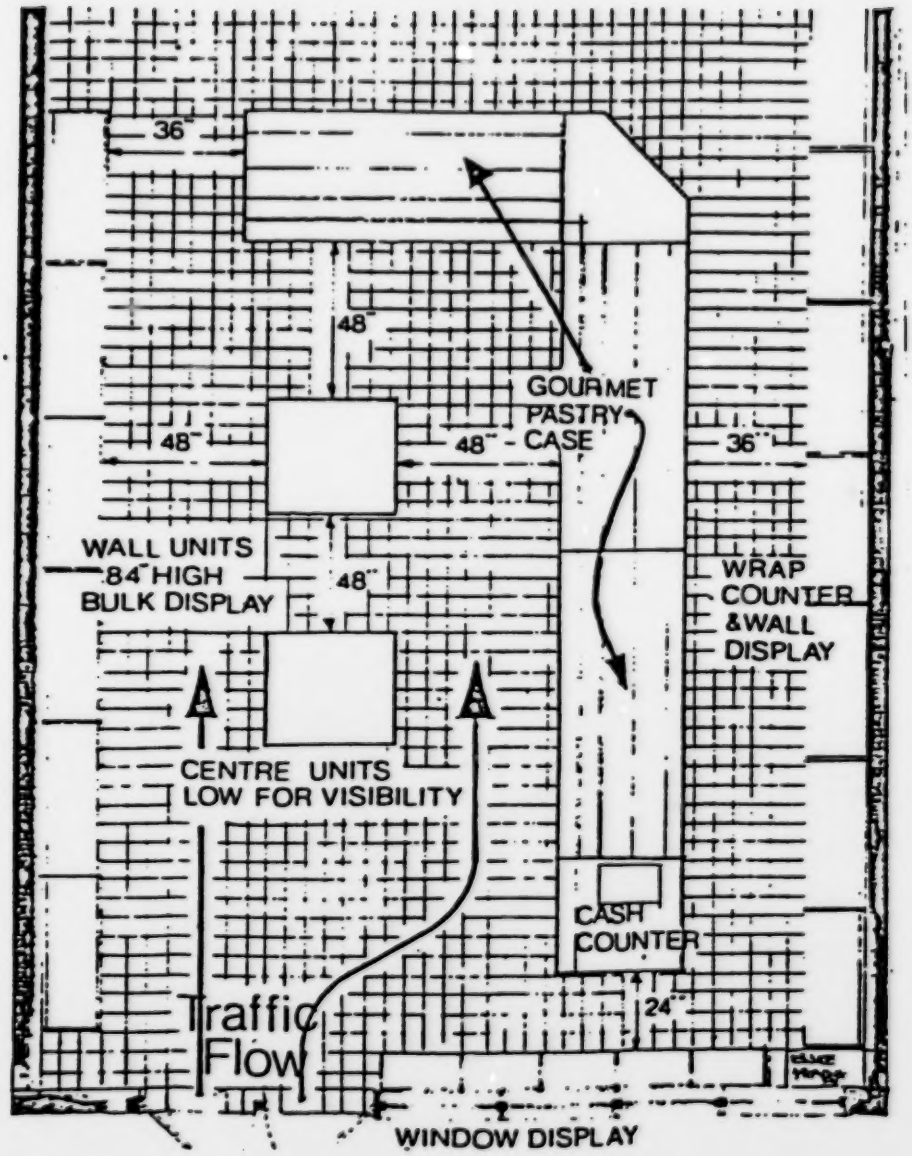

Exhibit Four

STOCK CONTROL CARD

ITEM:

DATE	STOCK ON HAND	AMOUNT ISSUED	AMOUNT RECEIVED	DATE ORDER PLACED

RECEIVING RECORD

DATE	INV. NO.	SHIPPER	PRODUCT	QUAN-TITY	PRICE PER LB./KG.	TOTAL COST	REMARKS

INGREDIENT/SUPPLIES COST ANALYSIS

INGREDIENT/ PACKAGING MATERIAL	INVOICE DATE	INVOICE PRICE		COST PER POUND /KILOGRAM
		COST PER:	UNIT SIZE	

BAKERY OPERATIONS REPORT
EXHIBIT 4

REVENUE	1	2	3	4	5	6	7	8	9	10	11	12
+ RETAIL SALES												
+ WHOLESALE SALES												
TOTAL												
- PURCHASES (INGREDIENT)												
- INVENTORY ADJUSTMENT												
- INGREDIENT COST												
GROSS PROFIT												
EXPENSES												
Advertising												
Packaging Supply												
Truck Expense												
Insurance												
Interest and Bank Charge												
Wages												
Employee Benefits												
Utilities												
Telephone												
Rent												
Taxes and License												
Professional Fees												
Management Draw												
Miscellaneous												
Maintenance and Repair												
Office Expense												
Other												
Total												
SURPLUS OR DEFICIT												
To Date												

Exhibit 5

Forecasting the Profitability

For both the existing business and the start-up situation, the forecasts will have great similarities. The following example is not intended as a guideline necessary for a good business operation, but as an example of the various items involved in a forecast and their relationship to each other on a percentage basis.

A study of the notes and explanations that are also included with the example, will help to explain where differences may be expected as the business grows and becomes more established.

Forecast Profit & Loss Statement
3-Month period beginning Jan. 1st.

	$	%
Sales		
Ingredient purchases	62,624.00	100.00
#1 Packaging supplies	18,160.96	29.00
	6,888.84	11.00
	25,049.80	
	37,574.40	60.00
Operating Expenses		
#2 Payroll	16,908.48	27.00
Fringe Benefits	1,878.72	3.00
Rent	6,262.40	10.00
Utilities (hydro, gas, water)	1,565.60	2.50
Laundry	156.56	0.25
Insurance	313.12	0.50
Delivery Truck & Expense	469.68	0.75
#3 Maintenance & Repairs	219.18	0.35
#4 Advertising	626.24	1.00
Term Loan Interest	313.12	0.50
Depreciation	156.56	0.25
Telephone	219.18	0.35
Total Operating Expense	29,088.84	46.45
Operating Income	8,485.56	13.55

Notes:

#1 The initial cost of packaging supplies would be relatively high; in subsequent reporting/forecast periods this would more realistically be reduced to 5-6% of sales.

#2 This item is expressed as a total expense, including the employer's share of Canada Pension Plan, Workman's Compensation, etc. Most new businessmen overestimate the labor requirements until the business has settled. Also, during the start up period there is often an excessive staff turnover; in subsequent periods this should settle to a percentage in the region of 22%. A proportionate decrease in fringe benefits will also be noted.

3# In an initial Profit-and-Loss Forecast for a new facility this item would not be a normal expense, as maintenance and repairs of equipment should be covered by purchase warranties where a recognized supplier company has been involved.

4# One percent of sales used as advertising and promotions expenditure during the initial start-up period is more than acceptable. It is essential to advertise during this period to as many local residents as possible, to encourage customers to visit your new venture.

The above figures are only used as samples and should not be taken as indications of current payroll costs.

EXHIBIT 5

LINE OF BUSINESS (and number of concerns reporting) DOMAINE D'EXPLOITATION (et nombre d'entreprises étudiées)		Cost of Goods Sold / Coût des marchandises vendues	Gross Margin / Marge bénéficiaire brute	Current Assets to Current Debt / Coefficient du fonds de roulement	Profits on Sales / Coefficient du profit sur les ventes	Profits on Equity / Coefficient du profit sur l'avoir	Sales to Equity / Coefficient des ventes sur l'avoir	Collection Period / Période de recouvrement	Sales to Inventory / Coefficient des ventes sur les stocks	Fixed Assets to Equity / Coefficient des immobilisations sur l'avoir	Current Debt to Equity / Coefficient des exigibilités sur l'avoir	Total Debt to Equity / Coefficient de la dette totale sur l'avoir
		Per Cent / Pour cent	Per Cent / Pour cent	Times / Fois	Per Cent / Pour cent	Per Cent / Pour cent	Times / Fois	Days / Jours	Times / Fois	Per Cent / Pour cent	Per Cent / Pour cent	Per Cent / Pour cent
Bakery Products / Pâtisseries	1,382	71.3%	28.7%	1.3	3.8%	14.7%	3.9	22	16.2	65.9%	61.4%	123.5%

HOW THE RATIOS ARE FIGURED—WHAT THEY MEAN

These ratios are based on analysis of a composite sample of audited financial statements released in a publication called Corporation Financial Statistics, by Business Finance Division of Statistics Canada. The statements were filed by Corporations with Dept. of National Revenue for income tax purposes for the taxation year 1984. These ratios are averages and include both profitable and unprofitable concerns.

COST OF GOODS SOLD

This includes the cost of inventory which has been sold or used, freight or transportation, customs duties, direct labor and factory overhead. Discounts on purchases are deducted. The ratio is a percentage of sales.

GROSS MARGIN

This ratio is derived by deducting the cost of goods sold from the sales figure. It answers the question "Is the markup on cost to selling price sufficient to show a profit? "

CURRENT ASSETS TO CURRENT DEBT

Current Assets are divided by total Current Debt. Current Assets are the sum of cash, accounts receivable, inventories including supplies, and Government securities. Current Debt is the total of bank loans, accounts payable, tax liabilities and amounts due to shareholders. This ratio is one test of solvency.

CURRENT YEAR PROFITS ON SALES

Obtained by dividing the profit declared by the companies, by total sales. This important yardstick in measuring profitability should be related to the ratio which follows. Profits are shown after taxes.

CURRENT YEAR PROFITS ON EQUITY

The equity of stockholders in the business is obtained by adding preferred and common stock plus surplus (less deficits). The ratio is obtained by dividing Profits by Equity. The tendency is to look increasingly to this ratio as a final criterion of profitability.

SALES TO EQUITY

Sales are divided by Equity. This gives a measure of the relative turnover of invested capital.

COLLECTION PERIOD

Annual sales are divided by 365 days to obtain average daily credit sales and then the average daily credit sales are divided into accounts receivable. This ratio is helpful in analyzing the collectability of receivables. Many feel the collection period should not exceed the net maturity indicated by selling terms by more than 10 to 15 days. When comparing the collection period of one concern with that of another, allowances should be made for possible variations in selling terms.

SALES TO INVENTORY

Dividing annual Sales by Inventories. This quotient does not yield an actual physical turnover. It provides a yardstick for comparing stock-to-sales ratios of one concern with another or with those for the industry.

FIXED ASSETS TO EQUITY

Fixed Assets are divided by Equity. Fixed Assets represent depreciated book values of buildings, leasehold improvements, machinery, furniture, fixtures, tools, and other physical equipment, plus land.

CURRENT DEBT TO EQUITY

Derived by dividing Current Debt by Equity.

TOTAL DEBT TO EQUITY

Obtained by dividing total current debt plus mortgage and other funded debt by equity. When this relationship exceeds 100%, the equity of creditors in the assets of the corporation exceeds that of owners.

Source: Dun & Bradstreet - Key Business Ratios 1987

EXHIBIT 6

TABLE A. Analysis of Sales Per Selling Area by Kind of Business and Region, Ranked by Sales Per Square Foot of Selling Area

TABLEAU A. Analyse des ventes selon la superficie de vente d'apres le genre de commerce et la region - Classement d'apres les ventes par pied carré de superficie de vente

Region, Quartiles and Weighted Averages / Région, Quartiles et moyennes pondérées	Sales - Ventes: Lower Quartile Values / Valeur minimum du quartile		Average Annual Sales / $ 000'S / Ventes annuelles moyennes	Selling Area Average / Superficie moyenne de vente		Type of Store Location / Genre d'emplacement				
	Square Foot / Pieds carrés / $	Square Metre / Mètres carrés / $		Square Feet / Pieds carrés	Square Metres / Mètres carrés	On Street / Sur rue / %	Shopping Centre / Centre Commercial: Neighbourhood / de quartier / %	Community / Communautaire / %	Regional / Régional / %	Indoor Mall / Mail intérieur / %
	Bakery Products Stores / Boulangeries-pâtisseries									
Canada										
Top 25% Supérieur 25%.....	529	5,694	225	360	33	55	26	12	8	-
Upper Middle 25% Intermédiaire supérieur 25%.	259	2,788	208	583	54	76	7	1	-	16
Lower Middle 25% Intermédiaire inférieur 25%.	187	2,013	197	877	81	72	6	-	12	10
Bottom 25% Inférieur 25%.....			95	918	84	76	13	-	11	-
Average Moyenne.....			182	691	64	70	13	3	8	7

Source: Statistics Canada Catalogue #61-522

Trade Journals

Bakers Journal - a magazine for Bakers published 6 times a year by: Naef Publishing Ltd.

How to Start and Operate a Bakery Profitably by Sylvia Jenkins

Small Bakery Cost Measurement by R.E. Davis

Published by: Naef Publishing Ltd.
106 Lakeshore Road E.,
Suite 209, Port Credit, Ontario
L5G 1E3 (416) 271-1366

Associations

Confectionery Manufacturers Association of Canada
1185 Eglinton Ave. E, Suite 101
Don Mills, Ontario,
M3C 3C6
416-429-1046